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# Policy Issues

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## The Russian Far East: contemporary problems and prospects of a region at the border with China

Ekaterina Selezneva

*This article gives a short overview of the population dynamics in the Russian Far East, and of the recent efforts of the Russian government to make the region more attractive for internal and external migrants and capital flows. This paper will also evaluate the role of China, a country sharing more than 3500 kilometres of border with the Far Eastern Federal District, in the region's economy. To unfold the potential of the region, further efforts should be made to invest into the industrial infrastructure, but also into the development of social infrastructure. The latter, together with information on implementation of Target Federal Programmes in mass-media, should create positive stimuli for migration inflows. Higher transparency of legislation related to migration and investment may create pre-requisites for attracting more Chinese (seasonal) manpower and financial resources, without aggravating sovereignty concerns of local population and politicians.*

### Introduction

The Russian Far East (RFE), a vast region with a rich endowment of natural resources, has one of Russia's lowest population densities, with approximately one person per square kilometer (the region is marked dark on the map of Russia in Figure 1). Enduring population decrease – the most striking decrease among eight federal districts of Russia – and heavy dependence of the regional economy on inflow of migrant workers have placed the topic of re-population and re-industrialization of the region high on the Russian government's agenda.

Figure 1: Russia and the Russian Far East



This article gives a short overview of the population dynamics in the Russian Far East, and of the recent efforts of the Russian government to make the region more attractive for internal and external migrants and capital flows. This paper will also evaluate the role of China, a country sharing more than 3500 kilometres of border with the Far Eastern Federal District, in the RFE economy.

### The Russian Far East: problems and proposed solutions

A large body of literature discussed the dramatic decrease of Russian population since the breakup of the Soviet Union, and its related problems. Some of the current projections predict shrinking of the country's population down to 112 million people by 2050 against 143.7 million people at the beginning of 2014 (Di Bartolomeo et al, 2014, Rosstat). The increasing proportion of elderly and the diminishing proportion of people in working age are factors likely to lead to unsustainability of pension schemes, deficit of labour

resources, and slow (if any) economic growth. In border regions – as in the Far Eastern Federal District – national security threats may become an additional problem.

In January 2013, approximately 4% of the Russian population (6,252,000 people) lived on the territory of the Russian Far East, a region that occupies about one-third of the Russian territory (36.4%). Majority of the population resides in the areas close to the Chinese border (in Primorski Territory and Khabarovsk Territory, with 1,947,000 and 1,342,000 inhabitants, respectively). Its population density of about one person per square kilometre is extremely low in comparison to the population density of about 60 people per square kilometre in Central Federal District and more than 80 persons per square kilometre in the neighbouring northern Chinese province of Heilongjiang. The latter consideration leads to the question: which Russian or foreign region(s) might contribute to replenishment of the labour force needed in order to exploit the Far Eastern District's potential?

Regional peculiarities partially explain the set of current problems. Like in the rest of Russia, the Far Eastern Federal District has experienced a severe decrease of the natural population – due to increasing mortality and decreasing fertility rates – since the breakup of the Soviet Union. According to Rosstat, the population of the Russian Far East accounted for approximately 8.06 million people in 1990 against about 6.25 million people in 2013. In addition, a strong population outflow aggravated the regional demographic situation. The explanation for this labour force outflow is rooted in Soviet times, when the central government tried to compensate the unattractiveness of the region due to its harsh climate conditions and underdeveloped infrastructure facilities by relatively attractive wage incentives. The implementation of these measures enabled the compensation of the existed worker shortages by large-scale immigration to RFE from other Soviet regions. However, this strategy failed to produce a permanent stable population in this region. Great in- and out-flows characterized the population dynamics.

During Soviet times, the regional economy of the Far East heavily relied on subsidised production of military hardware and provision of fuel and other mineral products. At the beginning of the 1990s, subsidies were substantially reduced, and production as well as living conditions declined. This boosted the outflow of labour force, in particular the high skilled one, from the region. In 1992, for the first time in the region's history, a negative population growth was registered; a negative net migration has been documented as early as 1989. With the demilitarisation of the regional economy, a transformation of the production structure towards raw material export took place. The attractiveness of the region for internal migrants diminished and made the regional economy dependent upon foreign workers. These labourers, coming from relatively poorer areas, filled the "3-D" jobs (dirty, dangerous, difficult) undesired by the local population, namely unskilled or semi-skilled man-

ual jobs (Kim, 1994). However, circular migration still prevailed. Especially at the beginning of the 1990s, a non-permanent, project-tied migration of limited duration with a guaranteed repatriation of migrants was the most desired option for Russian officials. Currently, the Far Eastern Federal District is still in the top-three regions for foreign labour migrants – following the City of Moscow and Moscow region, and the Ural Federal district – although it accounted for only approximately 10% of all migrant workers in Russia in 2010 (Di Bartolomeo et al, 2014). Unlike in the Central Federal District, which attracts mainly workers from the Commonwealth of Independent States (CIS) countries, migrant workers in the RFE come mainly (77%) from the so-called 'far abroad', meaning foreign countries beyond the frontiers of the former Soviet Union. Chinese workers composed the most numerous group (93.5%) among those coming from the 'far abroad', or 20% of the total labour migration to the region. In general, the number of departing migrants still outnumbers those arriving (Table 1); the latter does not hold true for migrants from foreign countries (Table 2).

**Table 1: Demographic statistics for the Far East Federal District**

|   | 2000      | 2005      | 2012      |
|---|-----------|-----------|-----------|
| Population, estimates end of the respective year    | 6.832.000 | 6.460.400 | 6.251.500 |
| Including: working age population                   | 4.387.600 | 4.243.300 | 3.868.600 |
| Natural population increase/decrease (–), pro mille | –3,5      | –3,9      | 0,9       |
| Percentage change of the population                 | –1,2      | –1,2      | –0,2      |
| Number of pensioners                                | 1.590.000 | 1.651.000 | 1.763.000 |
| Net migration, pro mille                            | –83       | –80       | –32       |

Source: Rosstat.

**Table 2: Immigration and emigration to the Far East Federal District, in 2012**

|            | Total   | within Russia | including      |                       |                           |
|------------|---------|---------------|----------------|-----------------------|---------------------------|
|            |         |               | within regions | from/to other regions | from/to foreign countries |
| Arrivals   | 232.140 | 205.547       | 126.118        | 79.429                | 26.593                    |
| Departures | 252.021 | 241.596       | 126.118        | 115.478               | 10.425                    |

Source: The Demographic Yearbook of Russia – 2013.

According to Regional reports of the International group of rating agencies "Expert RA" – available at <http://www.raexpert.org> – a process of redistribution and investments from eastern to western Russian regions was observed between two crises of 1998 and 2008. The Russian President Dmitry Medvedev during his visit through Russian regions in 2008 pointed out a "stark contrast between the region's natural beauty and its squalor". Medvedev underlined the "unique potential in terms of natural resources development", which "is hampered by a depressed, plodding, and extremely underdeveloped economic system". The question of how to stimulate an urgent region re-population, re-industrialization, and massive infrastructure (re-)building in the area was

raised by the Russian government. A number of programmes directly or indirectly targeting an increase of the region's attractiveness for potential investors and immigrants were developed. The importance of the further exploitation of the natural resources of the region was never questioned. However, a new priority for the region is a transformation of a currently resource-oriented economy into an innovative-oriented one.

In order to increase the region's attractiveness, a significant restructuring of existing and the construction of new infrastructure facilities, as well as the creation of educational institutions and programmes enabling training of highly-skilled specialists with regionally-relevant technical background, are required. The regional development was supported by approximately 22 billion USD of public spending over 2008–2012 in framework of preparations to the Asia-Pacific Economic Cooperation summit in Vladivostok in September 2012. Federal funds were invested in construction of hotels and roads, as well as in further development of facilities and initiatives of local higher educational institutions, such as a “business incubator” for students' entrepreneur projects at the Vladivostok State University for Economics and Service. A range of innovative specialisation fields was introduced into curricula of local higher educational institutions. Among others, the Far Eastern State Technological University participated in the foundation of the Far East Engineering school, which currently offers courses designed to train engineers for the oil-and-gas and chemical local industry. The Far Eastern State University launched a training programme led by an innovative “Scientific-Educational Resource Technology Center for Raising the Quality of Life in the Russian Far East”.

Infrastructure development is likely to serve as one of the pull factors helping to stimulate an increase of migration flows to the region. Further special funding of relevant initiatives is planned in the framework of the “New Migration Concept until 2025” (issued in 2012). The Concept is supposed to solve, among others, the problems of demographic development of the Russian Far East. By 2021, the population outflow from the Far East should be stopped; by 2026 an inflow of migrants should be witnessed. However, experts have issued a warning saying that “the majority of potential immigrant-repatriates reside in Central Asia, in different natural and climate conditions” and hence might not be willing to settle in the Russian Far East and Siberia (Di Bartolomeo et al., 2014).

### **The Russian Far East as a neighbouring region with China**

Economic and trade relationships, as well as labour exchange at the border between Russia and northern Chinese regions has been gaining strength since the re-establishment of the official contacts between the two countries at the end of the 1980s – beginning of the 1990s. Inflows of Chinese workers – on a temporary basis as requested by Russian firms – into the RFE became possible in 1988 with the opening of the Russian border to China. Predominantly, Chinese labourers

were requested for timber cutting, farming, construction and light manufacturing industries. The working groups were mobilized by local Chinese governments; the return of workers was rather strictly monitored. The first intergovernmental agreement established the main principles of employment of Chinese citizens in Russia in 1992. The introduction of the first agreement on tourist group exchanges with no visa requirements in 1993 triggered an increase of illegal Chinese migrants to RFE, often for work in construction and agriculture sectors, and the development of the “shuttle-trade” (importing of goods for resale by individual entrepreneurs often without full declaration in order to save import duties). At the beginning of the 1990s, official Chinese sources reported 30,000 Chinese citizens legally working in Russia. Expert estimates, however, outnumbered the official figures several times while accessing also a number of illegal migrants.

The intensity of migratory flows and activities of Chinese entrepreneurs were among the possible reasons for the emergence of a negative opinion of the local population towards Chinese workers and traders. The Chinese were perceived as enriching themselves at the expenses of the local population. Additionally, memories of border disputes between Russia and China were still fresh. Some RFE press articles described the inflow of Chinese labourers and entrepreneurs as a “peaceful penetration” which threatened the autonomy of the Russian region. At the same time, China – regardless of being the largest trading partner and the 3rd largest investor in the RFE – was perceived by the local population and entrepreneurs only as a minor partner for potential resource development or export-oriented manufacturing joint ventures (Kim, 1994). The Chinese investments into the RFE in the beginning of the 1990s were concentrated in trading and consumer goods manufacturing. China exported food and consumer goods to the RFE, while importing mainly steel, chemical fertilizers, and timber. Temporary migration was often an adaptation strategy for Chinese entrepreneurs in order to avoid the official procedures restricting commodities flows and high custom taxes (Larin, 2009). A number of polls conducted by Russian scientists show rather stable preferences of Chinese migrants to return to their country of origin in the long run, while considering migration to the Russian Far East mainly as a possibility to exploit a wide range of economic (or commercial) opportunities (Alexseev, 2013).

The coinciding goals of the two countries led to the establishment of cooperation in the sphere of natural resource development, processing industries, and basic infrastructure development. Top Russian officials implicitly called for the development of joint projects fostering the exploitation of Russian natural resources already in the mid-1990s (Kurt, 2007). The Chinese government, in its turn, started to promote the idea of complementarity between the two economies (emphasizing geographical proximity). At the beginning of the 2000s, a “go-global” strategy (and then “accelerated go-global” strategy in 2010) pushed Chinese firms to invest abroad in order to provide Chinese enterprises with resources

lacking in China. In order to bring together business people from the two countries, an annual Russia-China Investment Forum was launched in 2004. In 2006, the China-Russia Bilateral Investment Treaty was signed (it entered into force on 1 May 2009). Over 2004–2013 a number of significant trans-border mergers and acquisitions primarily in natural resources, power production, and communication technologies was realized in Russia by Chinese companies, naming among others the oil-producer Udmurtneft and the potash fertilizer company Uralkali. The importance of intra-regional cooperation, and in particular of border-trade in the RFE, has been continuously reconfirmed by top officials from the north-eastern Chinese Heilongjiang Province. According to the newspaper “China Daily” (issue from 29 June 2006), “the total trade volume between the province and Russia accumulatively reached US\$29.17 billion in the past two decades”.

Further cooperation in the spheres of cross-border trade, and cultural and scientific collaboration has been fostered in the framework of the Sino-Russian Treaty of Good-Neighborliness and Friendly Cooperation, signed in 2001 and in force until 2020. Among the initiatives and projects undertaken, the opening of the joint undergraduate and doctorate programmes (e.g. the Sino-Russian doctorate program of Xejluntsian University and the Far East State University), the Departments of Russian Language for Foreigners in some universities of the RFE, and high level scientific collaboration for the joint development of a satellite navigation system “Glonass” and “Beidou” can be highlighted. The number of initiatives and programs increased after 2006–2007 (the Year of China in Russia and vice versa). Improvement of attitudes towards Chinese migration and related border issues among the population of the RFE were recorded (Alexseev, 2013).

The strengthening of the relationships between the two countries got an additional boost after twelve documents were signed at the meeting between Premier Wen Jiabao and Premier Vladimir Putin in 2010. One of the achievements was to renounce the US dollar and resort to using the two countries’ own currencies for bilateral trade. The package of documents included agreements on energy cooperation, aviation, rail-road construction, and customs.

Nowadays, the demand for foreign, and in particular Chinese, workers in the Far East is still driven by construction, agriculture, and forestry. The Chinese north-eastern region and the Russian Far East agreements up to 2018 incorporate a long tradition of governmental policies from both sides purposely targeting the emigration of Chinese to Russia in border areas. Formal Russian-Chinese agreements encouraged exploitation of the RFE land by Chinese logging and agricultural companies. Ludmila Boni, Chief Scientific Officer at the Institute of Far Eastern Studies, reported more than 420 000 hectares of land rented by April 2014. Chinese logging and agriculture companies, however, pull Chinese migration flows into the related exploited territories and activities. A high proportion of migrants (about 60% of the migrants

workers) may be observed in the areas along the Sino-Russian border, namely in the areas with the highest demand for Chinese goods and services. Slightly less than 60% of Chinese migrants work for small and very small private enterprises in Russian and/or Chinese ownership (Larin, 2009). Experts often cite semi-legal and illegal symbioses between Chinese entrepreneurs and local Russian officials in business sectors with quick pay-off (trade, food services, tourism, hotel business).

The time for large-scale investments seemed to come in 2013, when the Russian Direct Investment Fund and the China Investment Corporation created the Russian-Chinese Investment Fund (RCIF) in order to “support Chinese investments in Russia, as well as promote job creation and technology transfer”. In August 2013, a cooperation agreement involving large-scale projects in the Russian Far East – summing up to a total of 5 billion USD was signed by the Minister for Development of the Russian Far East and the President of the China Development Bank. The range of projects covers the development of infrastructure (ports, roads, heating and electricity systems, sport facilities etc.) in the framework of the Federal Program “Socio-economic Development of the Far East and the Baikal Region until 2025” and the “Program of Cooperation between the Far East, Eastern Siberia, and the Northeast of China until 2018”.

### **Summary and conclusions**

Rich natural resources of the Russian Far East include oil, natural gas, wood, diamonds, and coal. There are extensive possibilities for hydro-power production, fishing and, to some extent, agriculture activities. Since the breakup of the Soviet Union and with central subsidies cut, a substantial decrease of the population has been observed. The economic development of the region has become dependent on the inflow of foreign manpower from both CIS countries and ‘far abroad’.

Starting from 2008, restructuring the region’s economy became one of the priorities of the Russian government. Transformation of the RFE into an attractive region for migrants and investments has started. The shift from a high dependence on resources extraction and their export towards a creation of innovative industrial parks was set as a national priority. In order to reach this goal, a number of federal (and central) target programmes was launched. Federal and local funding is used for the construction and reconstruction of infrastructure facilities.

Due to its geographical proximity, China and in particular its northern provinces, plays an important role in the economy of the region. An idea of the economies’ complementarity has been promoted by the Chinese local and central governments. In fact, some of the coinciding development goals of the two countries create a perfect match. Since the beginning of the 1990s, and the official re-establishment of the political and economic relationships between the two countries, Chinese manpower partially filled the labour shortages gap in the RFE.

Chinese workers, stimulated by local Chinese governments, migrate to the RFE in search for economic opportunities such as higher wages in mining, logging, and agricultural sectors, and possibilities to receive a quick pay-off in such sectors, and trade and services. Migration often has a temporary, commuting-type, character.

Recently, a large-scale joint investment project emerged. Chinese capital, however, is poured into the natural resources extraction industries and related infrastructure development as it is required by the 'go-global' strategy pursued by Chinese multinational companies since 2001. It fits only partially the innovation-targeting course chosen by the Russian government for the region.

In order to pursue the revitalization of the region further, two main directions of action can be figured out. First, enhancing industrial capacities should stay high on the agenda. Further development of transportation networks connecting the region with neighbouring foreign regions as well as with the other Russian regions is likely to increase the attractiveness of the natural resources sites for Russian and foreign companies. The stimulation of foreign investments flows into the region and collaboration with foreign partners for transfer and development of the region-relevant technologies should be pursued.

Secondly, labour force shortages and population outflow from the region during the last two decades clearly signalize unattractiveness of the region for local population and should be addressed. Clearly, further social infrastructure development – including the construction of schools and hospitals – which increases the quality of life, and the creation of new working places will serve as stimuli for strengthening migration in-flows as well as the will of the local population to stay. Further development of the existing scientific and educational base should provide the region with highly educated specialists that meet the regional relevant specifics, and it may help to avoid the emigration of younger cohorts – for studies and then for work – to the European part of the country.

Mass-media should take a conscious effort in timely informing the whole-Russia population, as well as populations of the potential sending countries, on successes of the Federal Target Programmes implementations. This is likely to improve the image of the region in eyes of potential migrants. Additionally, mass-media effort in increasing tolerance towards migrants to/in the region is needed.

The latter issue is crucial in order to decrease suspicion and hostility towards Chinese migrants still widespread in the region. The establishment of clear migration rules and collaboration with the local Chinese governments in a framework of on-project migration (with tracked return of workers to their sending country) may help to fill the labour force gap in seasonal, construction and agricultural work, without causing sovereignty concerns among the local population.

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